

Credit

Meet Alex

Introduction: You are a financial detective, and your case involves a young man by the name of Alex who is trying to understand his finances. Your mission today is to help and guide Alex

Pre-game time activity - analyze Alex's credit card account summary

Account Summary:

- Previous Balance: \$1,500.00
- New charges: \$300
- Payments: \$100
- New Balance: \$1,700

Important Dates & Rates

- Payment Due Dat: October 23, 2025
 - Minimum Payment Due: \$35
 - Annual Percentage Rate (APR): 24%
 - Credit Limit: \$2000
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What is outstanding balance?

Outstanding balance is the amount of money that you still owe on your credit card

What is a minimum payment?

The minimum payment is the smallest amount you must pay in order to keep your account in good standing and avoid late fees.

your best guess

1) What is Alex's current outstanding balance?

2) If Alex only pays the minimum payment of \$35.00, how much of that payment will go towards paying down the balance?

3) Why is it a bad idea for Alex to only pay his minimum dues?

The investigation - Credit Score Impact

Introduction: Now that we have taken a look at Alex’s credit card statement, let’s explore how different actions will affect their credit score



Activity

Instructions: For every scenario below mark whether it will increase Alex’s credit score, decrease it, or have no impact. Explain your reasoning

	Increase	Decrease	Why?
Alexes misses his payment by 30 days			
Alex applies for two new credit cards and a car loan in the same week			
Alex gets a new job with a higher salary			
Alex pays a different credit card of in time			

How stuff impact credit scores

Credit utilization

It is a measure of how much of your available credit you are using. A lower credit utilization ratio is better because it shows your not dependent.

Average Age of Accounts

It refers to how long you have had credit account for. Lenders tend to favor a longer credit history because they have more data about you

Financial Discipline

Like indirect impact, this broad term for paying on time and keeping balances low can help manage your credit, and boost your credit score.

Indirect Impact

Things that don’t directly affect your credit score still indirectly help boost it. For example, an increase income makes paying credit loan easier.

Debt-to-income ratio

Introduction: Final and critical part of our investigation of Alex's credit health is his debt-to-income ratio.

Lenders use this to decide if they will approve a loan!

Definition- The debt to income ratio is how much debt someone has in comparison to their income (crazy right?)
For example - Alex's financial statement for the month is as follows

	Income	Monthly debt payments
Credit Card Minimum	N/A	\$35
Student Loan Payment	N/A	\$250
Car payment	N/A	\$300
Total	\$3,500	\$585

Questions

1) What is Alex's total monthly debt payment amount?

2) Calculate Alex's Debt-to-Income ratio using the formula in the blue box!

3) A DTI of 36% or lower is generally considered good by lenders, does Alex's fall into this range?

4) If Alex wanted to buy a house and needed a mortgage, how might their DTI ratio affect their application? What steps can he take to improve his DTI?

$$\frac{(\text{Monthly Debt Payments})}{(\text{Gross Monthly Income})} \times 100$$



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